

August 26, 2007 Review

Comments

In the finest of the current generations “fifteen minutes” of focus. Markets rallied last week, victory was declared and it was time to start figuring out those year end bonuses on Wall Street.

Unfortunately for the investing public, this is not a sprint, it is a marathon. The underlying news continued to get worse. The “dip buying” of late August on light volume without regard to the real world will prove to be as profitable as throwing money into the wind.

Things are about to become extremely ugly.

Credit

- NEW YORK (AP) – 8-25-07 - [Bad credit has supplanted terrorism as the gravest immediate risk threatening the economy](#), a key national research group reported Monday. Borrowers' withering ability to pay their bills and the subsequent fallout in the credit markets this summer topped the list of short-term risks on peoples' minds, according to a survey of 258 members conducted by the National Association of Business Economics. NABE, a Washington-based association, said 32 percent of its surveyed members cited loan defaults and excessive debt as their biggest near-term concern. Loan brokers say it has become more difficult for some people to line up mortgages. Subprime loans, or loans to people with spotty credit histories, have all but disappeared as lenders scale back or shut down completely. The shakeout in the subprime mortgage market forced investors around the world to reassess how much risk they were willing to stomach. This led to an exodus of cash from investments like securities backed by home loans, short-term corporate bonds and stocks whose values were inflated because they were perceived as takeover targets. And, the Federal Reserve has lent billions of dollars to banks from its "discount window," normally associated with bailouts for struggling financial institutions. The Fed this month issued a statement that the risks to the economy have risen considerably and traders ramped up their expectations the Fed would cut targets for interest rates this year. The tumult in the financial markets has led businesses to revisit their interpretation of the housing boom earlier this decade and the easy credit that fueled it, NABE said. [The proportion of surveyed members who call it a "serious national bubble" more than doubled from two years ago to 29 percent, the group said.](#) **Bad Credit Tops Terrorism as Biggest Immediate Risk to Economy**, http://biz.yahoo.com/ap/070825/nabe_bad_credit.html?.v=2
- Aug. 21 (Bloomberg) -- The credit crunch triggered by a rout in the U.S. subprime housing market doesn't pose a "systemic" threat to banks, Moody's Investors Service said. "The 'core' of the system is still comfortably shock-resistant," Moody's said in a statement today. "U.S. and international financial institutions have a high pain threshold." Mortgage defaults by Americans with poor credit histories prompted the collapse in June of two hedge funds managed by Bear Stearns Cos. and triggered a worldwide rout in the debt markets. The European Central Bank and other central banks

have injected more than \$350 billion of emergency funds into money markets to reduce banks' borrowing costs. The U.S. Federal Reserve last week cut its discount rate by 0.5 percentage point to 5.75 percent. "Confusion and uncertainty of risk is creating this liquidity problem," Moody's Senior Vice President Pierre Cailleteau said. Sometimes banks are affected indiscriminately, "requiring more frequent market-stabilizing operations," he said. Under Fire The Fed's intervention helped restore confidence to global stock markets after a rout that wiped out \$5.5 trillion of market value. The Standard & Poor's 500 Index staged its biggest rally in four years after the Fed's Aug. 17 action. **The Moody's statement comes as it, Standard & Poor's and Fitch Ratings come under criticism from fund managers and politicians who say the companies failed to provide timely warnings to investors about problems in the subprime market. [yes the people that created the problem say there is no problem. How heart warming]** The credit assessors must "shoulder some responsibility" for the subprime debacle, Richard Shelby, the U.S. Senate Banking Committee's top Republican, said this week. Credit-rating companies face congressional scrutiny for an "inherent conflict" in helping construct loan-backed securities, then issuing ratings on them, Shelby said. "There is distinct conflict of interest within rating agencies because of the fact they earn the bulk of their revenues from issuers, not investors," said London-based Robert McAdie, global head of credit strategy at Barclays Capital. "They certainly have responsibility for what's happened today and they'll be forced to change their income structure and they need to be more regulated." "Panic Stations' German Chancellor Angela Merkel has said she supports a probe of the rating companies. The European Commission also plans to review the issue. Global financial markets and the world economy are at "panic stations," HSBC Holdings Plc, Europe's biggest bank by market value, said in a report published yesterday. "Should the panic exhibited over the last few days turn into revulsion, the markets may never be the same again," wrote HSBC economist Stephen King and strategist Richard Cookson. "The implied liquidity drain might leave the financial system, and the broader economy, more vulnerable than we currently believe." Moody's said the banking system may be more dependent on "episodic liquidity assistance" from central banks than originally thought. Still, the cost of the cash injections by central banks to smooth the markets would be minimal compared with the damage that may be caused by a potential dislocation of the financial markets, Moody's said. **Moody's Says Global Bank Crisis Fears Are Overstated (Update2**

<http://www.bloomberg.com/apps/news?pid=20601010&sid=a7DBRPDLc4z4&refer=news>

- Aug. 21 (Bloomberg) -- Ottimo Funding LLC, whose name is Italian for "excellent," has the highest possible credit rating and doesn't own subprime mortgage bonds. **That made no difference to investors who refused to buy Ottimo's \$3 billion of short-term debt this month as losses on home loans to risky borrowers infect the global credit markets. [this is why moving interest rates will not matter. The loan is not being made because of fear of extending loans, not because the rate is unattractive]** "It's pretty much a straight contagion," said George Marshman, chief investment officer of Stamford, Connecticut-based Aladdin Capital Management, which oversees about \$20 billion, including Ottimo. "We think the assets are good enough" to attract investors, he said. The \$1.1 trillion market for commercial paper used to buy assets from mortgages to car loans **has seized**

up just as more than half of that amount comes due in the next 90 days, according to the Federal Reserve. **Unless they find new buyers, hundreds of hedge funds and home-loan companies will be forced to sell \$75 billion of debt backed by mortgages,** according to Zurich-based UBS AG, Europe's largest bank. **Those sales would drive down prices in a market where investors have already lost \$44 billion,** based on Merrill Lynch & Co.'s broadest index of floating-rate securities backed by home-equity loans. That may hurt the 38.4 million individual and institutional investors in money market funds, the biggest owners of commercial paper. **[look at the article below in the risk section, ask yourself if you would like your money in a money market invested in this junk and you therein have a great real life example of the problem – YOU don't want the risk of owning it, so why would anyone else?] ``We're dumping all this collateral into the market and it becomes a death spiral for the assets,"** said Brian McManus, head of collateralized debt obligation research at Charlotte, North Carolina-based Wachovia Corp., the fourth-biggest U.S. bank by assets. CDOs contain pools of mortgage securities that have been repackaged and sliced into pieces. `Uglier and Uglier' Instead of commercial paper -- corporate debt that comes due in nine months or less -- **money fund managers are running for the safety of government securities.** Yields on three-month Treasury bills plummeted to 2.9 percent from 4.95 percent at the start of the month, **even though central banks injected more than \$200 billion into the financial system and the Federal Reserve cut the rate it charges banks for loans on Aug. 17.** Asset-backed commercial paper constitutes about half the total commercial paper market and has risen from \$650 billion in 2003, according New York-based Lehman Brothers Holdings Inc. Refusing to Buy **Investors are refusing to buy** short-term debt backed by any mortgage that isn't guaranteed by government-chartered companies such as Fannie Mae and Freddie Mac, Aladdin's Marshman said. `Financial Panic' Wall Street is in a ``financial panic" and **won't fund any mortgage bonds, even AAA rated bonds [in a large part because anyone with a brain knows that this junk is NOT AAA. It is improperly rated by at least several levels and is trading like the hazard it is]** backed by prime home loans, said Garrett Thornburg, chief executive officer of Thornburg, which makes loans of more than \$417,000 to people with good credit. The mortgages are known as jumbo loans because they exceed the limit on what Freddie Mac and Fannie Mae can purchase. **Even the Fed's decision to cut the discount rate that it charges banks failed to revive demand. [because the cut does not address the underlying problem. There is no magic salve this time.]** The rate for overnight borrowing in the asset-backed commercial paper market rose to 6.03 percent yesterday. The yields soared 0.39 percentage points to 6.01 percent on Aug. 17, **the biggest rise since the Sept. 11 terrorist attacks.** [yet the Dow sits about 6% under its ALLTIME HIGH. As posited last spring, which is right, the stock market OR common sense] `Huge Problem' ``There's still a huge problem in the credit markets," Thornburg said in an interview. **The market ``is unwinding because no one wants to own A1/P1 asset-backed commercial paper." [nor does anyone holding it want it marked to market]** Thornburg is using lines of credit for financing even though only 58 of its 38,000 mortgages are 60 days or more in arrears. ``That's just crazy," he said. ``If it's backed by subprime, all right. If it's backed by junk, get out. But if it's backed by high-quality receivables from Macy's or triple As from us, that market should be functioning and that market has stopped functioning." **Commercial Paper Roils Borrowers With \$550 Billion Coming Due**

<http://www.bloomberg.com/apps/news?pid=20601109&sid=a0eWRcMYfbqg&refer=home>

- Aug. 21 (Bloomberg) -- HBOS Plc, the U.K.'s largest mortgage lender, will provide emergency financing for its Grampian Funding LLC unit to repay commercial paper. HBOS cited "current market conditions" in the asset-backed commercial paper market for providing the funding, it said in a statement on Regulatory News Service today. The move will have "no material adverse impact" on HBOS, the Edinburgh-based bank said. Grampian had \$35.41 billion in debt outstanding at the end of May, according to Moody's Investors Service, making it the biggest issuer of asset-backed commercial paper in Europe. Grampian has arranged enough emergency funding to repay all of its outstanding debt, HBOS said. "Grampian will use facilities provided by HBOS Plc to repay maturing ABCP until such time as market pricing improves to a level acceptable to HBOS," [the underlying assumption holding everything up is that this will prove a blip – it will not, it is the new reality and as that begins to be factored in the downside remains huge] the lender said. Investors are shunning bonds backed by home loans after late mortgage payments by U.S. borrowers with poor credit histories rose to the highest since 2002. [why does every story still try to relate the issue to sub-prime? It is a very wide spread credit problem that leapfrogged subprime many months ago] Yields on asset-backed commercial paper last week soared by the most since the Sept. 11, 2001 terrorist attacks. Losses on U.S. subprime mortgages have roiled the market for debt secured on home and car loans, bonds, credit cards or trade receivables.
- Aug. 21 (Bloomberg) -- Landesbank Sachsen Girozentrale, the German state-owned bank getting emergency funding, has about 3 billion euros (\$4 billion) in investments linked to U.S. subprime mortgages, according to a person with knowledge of the matter. The bank's Ormond Quay finance unit holds the securities among its AAA rated asset-backed bonds, according to the person, who declined to be identified because the holding has not been made public. Ormond Quay invests in securities backed by residential mortgages, commercial property and credit cards. The Leipzig-based lender is the second German bank after IKB Deutsche Industriebank AG to get funding after a credit crunch prevented finance units from selling commercial paper, debt due in 270 days or less. SachsenLB obtained 17.3 billion euros in credit on Aug. 17 from German state-owned banks to repay debt from Ormond Quay. "I would have never thought that IKB or SachsenLB would get into so much trouble," said Wolfgang Gerke, president of the Bavarian Finance Center and a former professor of banking and finance. The events will accelerate consolidation among state-owned lenders, he said. Saxony's Finance Minister Horst Metz in an e-mailed statement yesterday dismissed as "speculation" that SachsenLB faced losses of 500 million euros linked to Ormond Quay. The company declined to comment.
SachsenLB Has EU3 Billion in Subprime Investments, Person Says
http://www.bloomberg.com/apps/news?pid=20601087&sid=aTdYazq1ex_c&refer=home
- Aug. 20 (Bloomberg) -- Yields on U.S. Treasury bills fell the most in two decades on demand for the safest securities amid concern over a widening credit crunch. Bill yields have fallen five straight days as money market funds dumped asset-backed commercial paper in favor of the shortest-maturity government debt. Three-month yields dropped the most since the stock market crash of 1987 and more than in the wake of the Sept. 11,

2001, terror attacks in the U.S, as funds shunned assets that may be linked to a weakening mortgage market. "The market is totally, absolutely, completely in fear mode," said John Jansen, who sells Treasuries at CastleOak Securities LP in New York. "People are afraid that lots and lots of mortgage paper and mortgage paper derivatives of all sorts is completely opaque and they can't price it." The three-month Treasury bill yield fell 0.66 percentage point to 3.09 percent as of 5:06 p.m. in New York. It's the most since Oct. 20, 1987, when the yield fell 85 basis points on the day the stock market crashed, and eclipses the drop of 39 basis points on Sept. 13, 2001, the day the Treasury market reopened after the attacks. The yield has fallen from 4.69 percent on Aug. 13. The bills yielded about 7 percent in mid-October 1987 and 3.2 percent in the days before the September 2001 attacks. "I've never seen it like this before," said Jim Galluzzo, who began trading short-maturity Treasuries 20 years ago and now trades bills at RBS Greenwich Capital in Greenwich, Connecticut. "Bills right now are trading like dot-coms." **Treasury Bill Yields Fall Most Since 1987 on Money Fund Demand**
http://www.bloomberg.com/apps/news?pid=20601087&sid=a675gM7_ZzL0&refer=home

- Aug. 20 (Bloomberg) -- Solent Capital Partners LLP, the \$8.8 billion U.K. hedge fund manager, may be forced to sell assets in a unit that invests in mortgage-backed securities after lenders refused to provide it with short-term funding. Solent's Mainsail II Ltd. fund is drawing on emergency bank loans after failing to sell commercial paper, or short-term IOUs, the London-based company said today in a statement. **Solent Capital May Have to Sell Mainsail Fund Assets**
<http://www.bloomberg.com/apps/news?pid=20601087&sid=aFzBGphwK77o&refer=home>

Commercial Real Estate

Commodities

Currency

Diversification

Derivatives

Housing

- Aug. 27 (Bloomberg) -- Sales of previously owned U.S. homes fell to the lowest level in almost five years in July, and the glut of unsold properties climbed to its highest since 1991 as mortgage-market turmoil rippled through the housing industry. With no recovery in sight [please forgive my amusement at this comment – for more than a year, the “bottom” has been declared with every piece of news good or bad. This time they are finally right, there is NO way to know how low and how bad, but IMO much lower and much worse are likely possibilities] for housing, lower property values and higher mortgage costs threaten to weaken consumer spending, economists said. The Federal Reserve this month acknowledged a growing risk to economic growth because of the

rising cost of credit. An index of homebuilder shares fell to a four-year low. Purchases declined 0.2 percent from the prior month to an annual rate of 5.75 million, the National Association of Realtors said today in Washington. While the retreat was less than forecast, inventories of single-family homes rose to the equivalent of a 9.2 months' supply. From a year earlier, existing-home sales dropped 9 percent. "We are very likely to see home sales continue to drop," said Ethan Harris, chief economist at Lehman Brothers Holdings Inc. in New York, who accurately predicted the number. "There's a big imbalance between supply and demand, with lots of people who want to sell and lots of hesitant buyers." Sales were projected to fall 0.9 percent to a 5.7 million annual rate, according to the median estimate of 74 economists in a Bloomberg News survey. Predictions ranged from 5.5 million to 6 million. Existing home sales averaged 6.51 million in 2006. Median Price The median price of an existing home dropped 0.6 percent in July from a year ago to \$228,900, the Realtors group said. The supply of homes for sale at the end of the month climbed 5.1 percent to 4.59 million. At the current sales pace, that represented 9.6 months' worth, up from 9.1 months' worth at the end of the prior month. The inventory of unsold single-family homes rose to 3.85 million, representing a 9.2 months' supply, the most since October 1991. ["Unfortunately, worse news lies ahead."](#) said Nigel Gault, chief U.S. economist at Global Insight Inc. in Lexington, Massachusetts. Stricter borrowing rules mean more foreclosures and fewer qualified buyers, which will be "adding up to lower home sales and lower prices. It is hard to see a bottom before mid-2008. **U.S. Economy: Home Sales Drop, Inventories Increase** http://www.bloomberg.com/apps/news?pid=20601087&sid=a3Cc0_eMTmYk&refer=home.

Housing Finance

- Aug. 22 (Bloomberg) -- The rising cost of credit took its toll on Lehman Brothers Holdings Inc., Accredited Home Lenders Holding Co. and HSBC Holdings Plc as the subprime mortgage fallout spreads through the economy. Lehman, the biggest underwriter of U.S. bonds backed by mortgages, became the first firm on Wall Street to shut its subprime-lending unit and said 1,200 employees will lose their jobs. Accredited, reeling from its canceled purchase by Lone Star Funds this month, stopped making home loans. London-based HSBC, Europe's largest bank by market value, closed a U.S. mortgage office after failing to finance new loans. Mortgage lenders today announced plans to fire 3,700 people as the slump that began in subprime mortgage bonds reaches beyond mortgages to companies seeking money in the corporate debt markets. The shortfall of credit prompted the Federal Reserve last week to cut the discount rate that it charges banks to lend. The Fed may cut its overnight rate to persuade lenders to extend more credit, said John Lonski, chief economist at Moody's Investors Service. "The subprime situation continues to deteriorate and the likelihood of a Federal Reserve rate cut is increasing," said Lonski, who is based in New York. The Fed may need to cut "in the event that the financial markets remain dysfunctional." **Lehman, Accredited, HSBC Shut Offices; Crisis Spreads** <http://www.bloomberg.com/apps/news?pid=20601087&sid=aoFMxKqap0ek&refer=home>

- Aug. 21 (Bloomberg) -- Accredited Home Lenders Holding Co., the subprime mortgage company that's suing to salvage its takeover by a private-equity firm, plans to sell \$1 billion of loans to prevent creditors from demanding more collateral. **Half of the loans were sold last week and the remaining sales will take place by October, [in the worst credit market in recent memory, these mavens managed to sell \$500MM in debt. Why no disclosure on price? Was it even 50 cents on the dollar? As to "selling the other half by October, only if the trustee negotiates it]** Chief Executive Officer James Konrath said today in a statement. Accredited has the right to repurchase them by mid-November, and will do so "if the market improves to a rational level," Konrath said. The buyer and specific terms of the transaction weren't disclosed. **[what a surprise – this did however manage to spike the stock and make up for the 10% AH drop last night]** The agreement may help Accredited preserve cash as it seeks to force Dallas-based Lone Star Funds to complete a planned \$400 million buyout. Lone Star backed out of the deal earlier this month, citing "the drastic deterioration" of Accredited's financial condition. In July, Accredited's "liquidity," or cash and available credit, tumbled 27 percent to \$175 million. "If the company can get them to take the loans, that's probably a good thing," said Bose George, an analyst at KBW Inc. in New York, who has **a "market perform" [if the market is the mortgage market and the expectation is that this along with the rest will all end up bankrupt, who can argue. Although I am not sure that is what "Bose" is trying to convey. "Bose"??????????]** rating on the stock. "Because liquidity is key here, just not to lose capital." The transaction will reduce the risk that the company may be forced to provide more collateral to the firms that made the loans, Accredited said. **[yes from a 100% certainty to a 99% certainty]** Accredited said today it still has \$600 million of loans not covered by the agreement, partly funded by warehouse lines. The company had been counting on the Lone Star takeover to bolster its finances, and **Accredited's auditors said earlier this month that it may not survive if the deal collapses.** [the deal already has collapsed, yet this little bunny continues to trade near 6 bucks because "investors" think that a court will force LS to buy the LEND stock at 15 bucks. How funny is that? what a great "investment" concept!!! At least 90 mortgage companies have had to close, file for bankruptcy or put themselves up for sale since the beginning of last year. [yes, that is the market on which the market perform must be based] Lone Star, which agreed to the takeover in June, **said Aug. 10 that it wouldn't go through with the deal.** The next day, Accredited sued the buyout firm in Delaware Chancery Court, saying it had no grounds to walk away. **Lone Star said in a court filing yesterday that it had no obligation to Accredited other than a "possible contractual remedy" of a \$12 million breakup fee.** **[please refer back to what the auditor's opined in the event the deal falls through]** A trial has been set for Sept. 26. **Accredited Plans to Sell \$1 Billion of Mortgage Loans [the trial that will be interesting will be the criminal trial involving the principals in this sham. LEND will be bankrupt within 2 months IMO]** <http://www.bloomberg.com/apps/news?pid=20601208&sid=a3HHNouB58o4&refer=finance> **[looks like even I get one right every now and then – the following came out the morning after I prepared the analysis of the preceding – we shall celebrate our victories]** Accredited Home Halts Loan Applications, Cuts Staff by 1,600 By Rick Green **Aug. 22** (Bloomberg) -- Accredited Home Lenders Holding Co., the subprime lender whose sale to Lone Star Funds collapsed, will close almost all of its retail lending business, shut half of the 10 divisions serving brokers and halt U.S. mortgage applications. About 1,600

people are losing their jobs, the San Diego- based company said in a statement distributed today by Business Wire.

<http://www.bloomberg.com/apps/news?pid=20601087&sid=aFGUvdS4zdM8&refer=home>

- Aug. 20 (Bloomberg) -- Thornburg Mortgage Inc., the jumbo- mortgage specialist that stopped taking loan applications last week because of a cash crunch, sold \$20.5 billion of securities at a discount to pay down debt it couldn't refinance. The Santa Fe, New Mexico-based company will record a \$930 million loss in the third quarter on the sale of the mortgage- backed bonds, resulting in a probable net loss for the year, President Larry Goldstone said in an interview. Thornburg's shares, which gyrated between \$7.49 and \$18.35 last week, dropped as much as 13 percent today. Thornburg curtailed new mortgages after investors in the \$2.2 trillion U.S. commercial-paper market refused to buy the short-term debt that it used to finance home loans. The company said in a statement that it now expects ``to resume normal operations over the next two weeks" instead of today as planned. ``We want to try to resume our lending operations this week and next week, but I can't tell you whether it's going to be today or tomorrow or Wednesday," Goldstone said in the interview. ``We've still got some things we need to work on before we can get that opened up." While Thornburg ``appears likely to survive its liquidity crisis, we believe future earnings power has been materially damaged," said Jefferies Group Inc. analyst Richard Shane Jr. in a note to investors today. He rates the shares ``underperform." **Thornburg Sells Securities to Revive Home Lending**
<http://www.bloomberg.com/apps/news?pid=20601087&sid=aNv4kpHqL78s&refer=home>
- **August 21, 2007 -Capital One Financial Corp.**, citing "an unprecedented set of market circumstances," plans to shut down its struggling GreenPoint mortgage unit -- keeping only pieces of a business valued at \$6.3 billion just three years ago. The ninth-largest U.S. bank by market value, Capital One bought GreenPoint in last year's \$13.2 billion purchase of North Fork Bancorp, of Melville, N.Y. In 2004, North Fork paid \$6.3 billion for GreenPoint Financial Corp., then a large New York savings and loan specializing in mortgages. In a statement, Capital One, McLean, Va., said it will take an after-tax charge of \$860 million, or \$2.15 a share, most of it this year. The company is revising downward its 2007 earnings guidance to approximately \$5 a share. Capital One had 2006 per-share earnings of \$7.62. The company said that despite the pain of shutting down a once highly valuable business, the acquisition of North Fork and its GreenPoint unit nonetheless helped Capital One evolve from predominantly a credit-card company into a full-fledged bank. Capital One said it bought North Fork for its branch network, customer base and deposits, not for its mortgage business, which was relatively volatile and less valuable as a potential earnings stream. GreenPoint was a pioneer in so-called no-documentation and low-documentation mortgages in the 1990s, making its demise a watershed moment. Lou Barnes, co-owner of a Colorado mortgage bank called Boulder West Inc., said GreenPoint built a niche serving wealthy clients, such as attorneys who had a sudden surge in income but couldn't qualify for a large mortgage based on recent stated earnings. Mr. Barnes said the shutdown was bad news for distressed credit markets, which already have lost access to other major providers and types of loans. "The healthier housing markets can stand a timeout for a while, but the troubled markets are already in a terrible imbalance of buyers and inventory. To remove big chunks of potential mortgages is a big

stress.” Capital One had a \$9.69 million loss on its mortgage unit in the first half of 2007. The company said recently that it was slowing the origination of new mortgages to drain its pipeline but was still having trouble selling packaged mortgages and couldn't easily hold them. **Capital One to Close Its GreenPoint Unit**
http://online.wsj.com/public/article_print/SB118764159728403271.html

Macro Economic

- Aug. 24 (Bloomberg) -- **Stock markets around the world are rallying in the wake of the Federal Reserve's decision to cut its lending rate to banks to help avert a credit crisis.** “Clearly the Fed stepped up,” said Jeffrey Kleintop, who helps oversee more than \$173 billion as chief market strategist at LPL Financial Services in Boston. With the discount rate cut, the Fed “told the markets they're not going to let this liquidity crisis become a major contagion.” [with the timing of a televisions show, victory declared – this is the scary thing. The complete lack of comprehension that not all problems are fixed in a week] The central bank on Aug. 17 cut the interest rate it charges banks by 0.5 percentage point to 5.75 percent, acknowledging for the first time a policy shift was needed to contain the subprime- mortgage collapse that roiled financial markets and wiped out \$5.56 trillion in global market value in less than a month. Emerging markets rallied the most after suffering the biggest losses during the global rout. The MSCI Emerging Markets Index climbed 8.7 percent since the discount rate cut, after plummeting 18 percent from a record on July 23. **Global Stock Gains Show Fed ‘Stepped Up’ to Avert Credit Crisis**
<http://www.bloomberg.com/apps/news?pid=20601087&sid=akMt8E9nrgCw&refer=home>
- Aug. 24 (Bloomberg) -- The Federal Reserve Bank of New York targeted investor gridlock in the asset-backed commercial paper market today, giving banks new information on how they can use such securities as collateral in exchange for central bank loans. “**In response to specific inquiries, the Federal Reserve Bank of New York has affirmed its policy to consider accepting as collateral investment quality asset-backed commercial paper**” [fitting that the garbage is now being used as collateral at the lender of last resort] for discount-window loans, Andrew Williams, a spokesman for the bank in New York, said in an interview. The clarification is the latest effort by central bankers to lubricate credit markets, which have shut out some companies after a slide in the value of securities backed by subprime mortgages. The Fed a week ago cut the so-called discount rate on direct loans to banks and encouraged lenders to use the resource. The four largest U.S. banks borrowed \$2 billion this week. “It creates a fast-track avenue for tapping the discount window for some of the assets at the heart of the liquidity logjam,” said Louis Crandall, chief economist of Wrightson ICAP in Jersey City, New Jersey. “That would ease the strain on the commercial paper market considerably.” The clarification today is the second move in as many days by Fed officials to enhance the effectiveness of the discount window in alleviating strains in capital markets. **New York Fed Accepts Asset-Backed Paper as Collateral (Update3)**
<http://www.bloomberg.com/apps/news?pid=20601087&sid=ahJj8F0ICjrM&refer=home>

- Aug. 21 (Bloomberg) -- Federal Reserve policy makers don't expect to know for days whether their Aug. 17 discount-rate reduction will succeed at calming markets, Fed watchers say. Yields on three-month Treasury bills yesterday fell the most since the 1987 stock-market crash as money market funds dumped asset-backed commercial paper in favor of the shortest- maturity government debt. Fed officials, who said they would accept everything from home-equity finance to municipal bonds as collateral for loans, expect some disruptions because banks are more cautious about what collateral they themselves accept. "What the Fed wants to do is buy time to sort these things out," said Lou Crandall, chief economist at Wrightson ICAP LLC in Jersey City, New Jersey. Fed Chairman Ben S. Bernanke is trying to avoid an emergency cut to the benchmark lending rate between banks, focusing instead on trying to maintain liquidity in markets. Futures traders are betting he'll fail and that the credit crunch will force him to ease monetary policy for the first time since 2003. "Financial market volatility, in and of itself, does not require a change in the target federal funds rate," Richmond Fed President Jeffrey Lacker said at the annual luncheon of the Risk Management Association of Charlotte. "Interest rate policy needs to be guided by the outlook for real spending and inflation," and markets can change that assessment if they induce changes in growth or prices. **"You're going to see liquidity return to normal,"** [this is in fact the same Henry Paulson who said last week that all was great, just before the emergency fed actions. You can trust him this time though] Treasury Secretary Henry Paulson said today in a CNBC interview in Washington. "What Americans need to understand is these things take time." Senate Budget Committee Chairman Kent Conrad yesterday called for the resignation of St. Louis Fed Bank President William Poole. Conrad, a North Dakota Democrat, said in a statement it was "irresponsible" for Poole to say in an Aug. 15 interview that only a "calamity" would justify a rate cut. **Poole declined to comment, according to his spokesman,** Joseph Elstner. **Fed officials still don't seem to be convinced that a system-wide failure is at hand. Commercial banks are profitable and as of the second quarter more than 97 percent of all residential real-estate loans were current on payment, according to Fed data. The Federal Open Market Committee is trying address the liquidity needs through alternative tools such as the discount window.** [Summer 1929 facts??????] Liquidity Squeeze Technically, banks could ease the liquidity squeeze in the commercial paper markets by accepting that as collateral and exchanging it at the discount window for a 30-day loan at 5.75 percent, which they pass on to clients. For now, Fed watchers say, banks and investors are suspicious about the quality of some securities, such as asset-backed securities involving real estate, which may not make the new discount rate all that useful. Fed officials regard such re-pricing of risk as normal and it may take days for the financial markets to adjust. "It is really more a crisis of confidence in terms of what people hold," LaVorgna said. **"The economy fundamentally is pretty sound."** [you can expect me to refer back to some of these "all is well" comments in the near future and it will not be to tout their foresight] **Fed Expects Markets Will Take Days to Digest Rate Cut (Update3)**
<http://www.bloomberg.com/apps/news?pid=20601109&sid=at5qN81F05YI&refer=home>
- Aug. 20 (Bloomberg) -- Federal Reserve policy makers, who declared that inflation was their paramount challenge just two weeks ago, have been forced to make financial-market stability the trigger for changes in interest rates. [But we trust they are right now. How amusing] By lowering the discount rate and issuing a statement **conceding threats to the**

economy, Federal Open Market Committee members effectively ripped up the economic-outlook statement from their Aug. 7 meeting. **Some economists describe the about-face, coming after months of assurances that the subprime- mortgage rout was contained, [but we trust they are right now II]** as Chairman Ben S. Bernanke's first serious error since taking office last year. **[actually his “first serious error was not addressing the ridiculous liquidity situation and derivative problem a year ago when something still might have been done other than allowing a massive capital market dislocation]** “It was a rookie mistake,” said Kenneth Thomas, a finance professor at the University of Pennsylvania's Wharton School in Philadelphia. The Fed “underestimated liquidity needs” of investors and the fallout from the housing recession, he said, adding, “This demonstrates the difference between book-smart and street-smart.” **[spoke like a true academic]** Bernanke, a former chairman of the economics department at Princeton University, has elevated the role of forecasts in Fed policy rather than amassing clues from dozens of market indicators as predecessor Alan Greenspan did. The Fed forecasts showed that “moderate” growth would continue, and that inflation remained the biggest danger. The credit collapse has undermined that stance, and Bernanke may cut the benchmark interest rate by at least a quarter-point at or before the Sept. 18 FOMC meeting, analysts say. Tough to Model “Sometimes, the dynamics change very, very quickly,” said former Fed governor Laurence Meyer, who voted for the three reductions in 1998 after currencies in Asia, Russia and Latin America tumbled. Bernanke's shift “**tells us how difficult it is to translate financial turbulence into the macroeconomic forecast.**” **[there was absolutely nothing sudden about this problem it has been building for years and was made possible only because of Greenspan’s irresponsibly dropping the interest rates so low for such an extended period of time.]** Stocks rallied after the announcement, **but credit markets remained unsettled.** {because the credit markets understand it is a credit issue not an interest rate issue and the “equity markets” think like Cramer – i.e. the Fed will save us – we ARE seeing who was right] The Standard & Poor's 500 Index climbed 2.5 percent, the biggest rally in four years. By contrast, asset-backed commercial paper yields jumped the most since the Sept. 11, 2001, terrorist attacks. Top-rated paper maturing Aug. 20 yielded 5.99 percent late on Aug. 17, up 39 basis points in a day. A basis point is 0.01 percentage point. `Bleeding Into the Economy' “The Fed has an easing bias, but it is not an easing bias dictated strictly by economic conditions,” said Stephen Stanley, chief economist at RBS Greenwich Capital Markets in Greenwich, Connecticut. “This is a financial-market issue, which is then bleeding into the economy.” **[remind you of “it is contained to subprime” switching to “it is spreading from subprime to other credit”. Of course a collapse in the credit markets will spread to the economy]** Last week's policy shift notwithstanding, Bernanke's moves to resolve the credit crunch so far have been restrained. Even then, and unlike the Greenspan era, it was the Fed doing the talking, not any one individual. The Fed pumped \$38 billion into the banking system on Aug. 10 to free up financing in short-term credit markets, and issued a six-line statement. The injection was the Fed's biggest since the meltdown began. By contrast, the European Central Bank added \$130 billion in temporary reserves a day earlier. ECB President Jean-Claude Trichet followed up with media interviews designed to reassure investors. The Bernanke Fed “We're getting a nice further look at the new Bernanke Fed,” said Ethan Harris, chief U.S. economist at Lehman Brothers Holdings Inc. in New York. “He definitely wants to use the committee and these more formal

directives," as opposed to Greenspan's preference for speeches laden with ``code words." The reduction in the discount rate, which is used less than the federal funds rate as a policy-making tool, wasn't directed at the broad economy so much as at trying to ease gridlock in credit markets. **The Fed said it would accept everything from home-equity loans to municipal bonds as collateral for discount- window loans up to 30 days.** [accepting questionable collateral is how the problem started; glad to see the fed is fixing it by extending the practice] The decision to keep the benchmark overnight lending rate unchanged -- for now -- may be a sign that the central bank is still wary of bailing out bad bets by financial institutions and investors. St. Louis Fed President William Poole said in an interview on Aug. 15 that only a ``calamity" would justify a rate cut between scheduled FOMC meetings. ``They knew what they were doing" by maintaining the anti-inflation bias at their Aug. 7 meeting, said former Dallas Fed President Robert McTeer. **``I do not agree with it, but I think they were trying very hard not to have a Bernanke put. They were hard-pressed to keep that out of it. [I agree with this completely. What does it say about how bad things are and what does it say that it is NOT working]** It became unrealistic." `Greenspan Put' Traders and economists use the term ``Greenspan put" to describe the priority the former chairman placed on financial- market stability. [this created a massive moral hazard that will be devastating to unwind]A put option provides the right, though not the obligation, to sell a security, currency or commodity within a set period. Greenspan provided ample liquidity after the 1987 stock market crash, and he was one of the architects who arranged a financial backstop for Mexico after the 1994 peso devaluation. In 1998, the Fed also helped oversee the rescue of failed hedge fund Long Term Capital Management, and cut interest rates 75 basis points in three separate moves to cushion the blow of global financial turmoil. **Bernanke's `Rookie Mistake' Forces Fed to Shift Focus to Market**
<http://www.bloomberg.com/apps/news?pid=20601087&sid=amXgP4xSCOWU&refer=home>

Retail

- Aug. 24 (Bloomberg) -- A split in the ranks of the three U.S. automakers may jeopardize efforts by General Motors Corp. and Ford Motor Co. to save \$2.5 billion a year in health care costs. For decades the United Auto Workers union has wrung almost identical agreements from GM, Ford and Chrysler as they added benefits or agreed to concessions. Maybe not this year. GM and Ford want to cut costs by transferring retiree health benefits to a union-run fund. Chrysler LLC, now owned by Cerberus Capital Management LP, has different priorities, according to people with knowledge of the situation. The smallest of the three automakers needs to negotiate more immediate savings to raise cash for operations, said the people, who don't want to be named because the discussions aren't public. The divided front may make it harder for carmakers to get the concessions they want from the UAW, which represents 180,681 workers, or about a third of the companies' global workforces. GM and Ford, the biggest U.S. automakers, need to stanch losses and meet investors' expectations for successful talks that helped their shares gain more than 10 percent this year, before the recent global stock decline. By contrast, Chrysler is focusing on short-term cash flow. [needed because they just laid on significant debt for the buyout no doubt] `Wild Card' ``Chrysler is really the wild card

because of private- equity ownership and the possibility they want to maximize short-term returns on a minimum investment," [this article is included for the sheer absurdity of indicating a private equity firm does anything but “manage” for the short term – they do, they are a significant reason why we are in the current Armageddon situation, and they will in fact not give one whit if all three car makers are out of business in five years as long as they make money] said Gary Chaison, a professor of industrial relations at Clark University in Worcester, Massachusetts. **GM, Ford Threatened by Cerberus Divide on Health Fund**

<http://www.bloomberg.com/apps/news?pid=20601109&sid=agC9apB6S2KM&refer=home>

- **Aug. 21, 2007** — Consumer confidence sustained its steepest one-week drop in more than 20 years of ongoing polls this week, falling to its lowest level since the aftermath of Hurricane Katrina in late October 2005. The ABC News/Washington Post Consumer Comfort Index lost an extraordinary nine points to -20 on its scale of +100 to -100, down from -11 last week, and a summertime high of -5 four weeks ago. **Before now, the index never has fallen by more than seven points in a single week in 1,130 weeks of consecutive polling.** The decline is broadly based among population groups, and there seems not to be a single negative event to blame, but a confluence: the stock market's fall, troubled housing and credit markets, the Fed's expressions of concern about an economic downturn, the cumulative effect of high gasoline prices during the summer driving months, and a public broadly dispirited over the course of national events, driven by the unpopular war in Iraq. INDEX □ The index is based on Americans' ratings of the national economy, their personal finances, and the buying climate, and all took a hit this week: Just 32 percent say the economy's in good shape, down five points in a week to the fewest since October 2005; 53 percent say their personal finances are OK, down five points to the fewest since October 2004; and 35 percent call it a good time to spend money, matching what it was this past June. NATIONAL ECONOMY □ Thirty-two percent of Americans rate the economy as excellent or good; it was 37 percent last week. The highest was 80 percent on Jan. 16, 2000. The lowest was 7 percent in late 1991 and early 1992. PERSONAL FINANCES □ Fifty-three percent say their own finances are excellent or good; it was 58 percent last week. The best was 70 percent, last reached in January 2000. The worst was 42 percent on March 14, 1993. BUYING CLIMATE □ Thirty-five percent say it's an excellent or good time to buy things; it was 39 percent last week. The best was 57 percent on Jan. 16, 2000. The worst was 20 percent in the fall of 1990. **Consumer Confidence Tanks in Sharpest Drop in 20 Years**
<http://www.abcnews.go.com/US/Consumer/story?id=3507033&page=1>

Retirement

Risk

- Aug. 20 (Bloomberg) -- Money market funds were invented 37 years ago to offer investors better returns than bank savings accounts while providing a high degree of safety. Most of the \$2.5 trillion sitting in these funds is invested in such assets as U.S. Treasury bills, certificates of deposit and short-term commercial debt. Unlike bank accounts, money market funds aren't insured by the federal government. They almost never fail. **Unbeknownst to most investors, some of the largest money market funds today**

are putting part of their cash into one of the riskiest debt investments in the world: collateralized debt obligations backed by subprime mortgage loans. CDOs are packages of bonds and loans, and almost half of all CDOs sold in the U.S. in 2006 contained subprime debt, according to a March report by Moody's Investors Service. **U.S. money market funds run by Bank of America Corp., Credit Suisse Group, Fidelity Investments and Morgan Stanley held more than \$6 billion of CDOs with subprime debt in June, according to fund managers and filings with the U.S. Securities and Exchange Commission. Money market funds with total assets of \$300 billion have invested in subprime debt this year.** The danger of owning even highly rated CDOs containing subprime loans was thrown into sharp relief in June, when two Bear Stearns Cos. hedge funds that were holding subprime CDOs collapsed. `It's Inappropriate' Money market funds have become a staple for investors. There are 38.4 million money market fund accounts in the U.S., according to the Investment Company Institute. People use a money market both to hold savings and serve as an account to buy securities and place the proceeds of sales. Bruce Bent, who in 1970 created the first money market fund, The Reserve Fund, says no money market fund should invest in subprime debt. ``It's inappropriate," Bent, 70, says. **``It doesn't have a place in money market funds. When I created the first money market fund, I said you have to have immediate liquidity, safety and a reasonable rate of return. You also have to have a situation where you're not giving people headline risk."** Credit rating companies don't just rate CDOs; **they play an active role in assembling them,** says Charles Calomiris, the Henry Kaufman professor of financial institutions at Columbia University in New York. Fitch, Moody's and S&P participate in every level of packaging a CDO, says Calomiris, who has worked as a consultant for UBS AG, Bank of America and Citigroup. A CDO manager gathers hundreds of loan securitizations or bonds to use as collateral for the CDO. The debt supports an assortment of CDO sections, ranging from the riskiest non-investment grade to AAA or Aaa rated. CDO managers consult with analysts from the rating companies when creating a CDO, negotiating the highest credit ratings for each level, or tranche. The Credit Raters **Most of the dollar value of all CDOs, as much as 90 percent, gets a credit rating of AAA or Aaa.** The higher the credit rating, the lower the return that's demanded by investors. The CDO commercial paper bought by money market funds always has a top credit rating, even when it's backed by subprime debt. **In the past three years, Fitch, Moody's and S&P have made more money from evaluating structured finance -- which includes CDOs and asset-backed securities -- than from rating anything else,** including corporate or municipal bonds, according to their financial reports. **Subprime Infects \$300 Billion of Money Market Funds, Hikes Risk**

http://www.bloomberg.com/apps/news?pid=20601109&sid=aEUtlgwzL_qc&refer=home

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Savings Rate

Tech

Wall Street

- Aug. 22 (Bloomberg) -- The credit-market freeze that's paralyzing leveraged buyouts, mergers and myriad computer-driven trading strategies may cut Wall Street bonuses for the first time in five years. "There's a lot of pessimism out there," said Gary Goldstein, chief executive officer of executive-search firm Whitney Group in New York. "Looking at the world today as we see it and the impact the crunch is likely to have, it looks like bonus pools will decline." Individual bonuses vary, with some administrative staff receiving nothing and executives such as Lloyd Blankfein, Goldman Sachs Group Inc.'s CEO, getting more than \$50 million on top of his \$600,000 salary. **"This is the quarter that is going to determine whether compensation is going to be lower or not,"** [which bodes poorly for investors as the Streets willingness to take risk with their money will be high] said Michael Karp, CEO of the Options Group, which bases its estimates on interviews with senior industry executives and information gathered by the firm's network of consultants. Hedge-fund traders with at least 10 years' experience, who made an average of \$580,000 last year, probably will see pay rise 8 percent to 9 percent this year, according to Adam Zoia, founder of New York-based Glocap Search LLC and co-editor-in-chief of the Hedge Fund Compensation Report. That's about half of the rate he was expecting before the market's decline. [What a beating, how will they get by on \$650K??] At the top of Alpha's list was James Simons, founder of East Setauket, New York-based Renaissance Technologies Corp., who was paid an estimated \$1.7 billion. Chicago-based Citadel Investment Group LLC's Kenneth Griffin placed second with \$1.4 billion. Simons's personal profit may drop from 2006 as his biggest fund struggles. The \$29 billion Renaissance Equity Opportunities Fund is little changed on the year through last week, according to investors, while last year it returned about 21 percent. Griffin should again rank among the top-paid managers. Citadel, which oversees \$15 billion, has returned about 15 percent this year, investors say. **Since last falling in 2002, total bonus payouts at the five firms rose 6 percent in 2003, 19 percent in 2004, and 18 percent in 2005.** [have your pay checks done the same? Better yet, are your investment returns even close to these numbers?] **Bonuses on Wall Street Threatened for First Time in Five Years** [most read story on Bloomberg the day it ran. This is what matters on Wall Street, not YOU. It also means there will be additional high risk moves to maximize bonuses – oh I mean returns]
<http://www.bloomberg.com/apps/news?pid=20601087&sid=a0xCzL9GdJ6Y&refer=home>
- Aug. 21 (Bloomberg) -- Bank of America Corp., Deutsche Bank AG and Credit Suisse Group were sued for \$2 billion by a trustee for Refco Inc. for their alleged roles in a conspiracy that drove the futures trader into bankruptcy. Also named in a complaint filed today in Illinois state court in Chicago were law firm Mayer, Brown, Rowe & Mawe, accounting firms Grant Thornton LLP, Ernst & Young LLP and PricewaterhouseCoopers LLP, and former Refco Chief Executive Officer Phillip Bennett, who faces an October trial in Manhattan federal court for fraud, trustee Marc Kirschner said. **"This conspiracy went on for seven years, and as it turned out, many of the most well-known names**

in law, finance and accounting were involved," Kirschner said. Refco filed the 15th-largest bankruptcy in U.S. history in October 2005, a week after claiming that Bennett, 59, concealed \$430 million in company debt in the months after its August 2005 initial public offering. The Refco litigation trusts, created while the company was in bankruptcy, have already sued closely held buyout firm Thomas H. Lee Partners and related parties seeking \$945.5 million in damages. **Refco Trusts Seek \$2 Billion From Banks, Auditors**

http://www.bloomberg.com/apps/news?pid=20601087&sid=aHtFF__AAsaA&refer=home

- Aug. 20 (Bloomberg) -- Research In Motion Ltd. rose to a record after Goldman, Sachs & Co. boosted its subscriber estimates for the BlackBerry e-mail device and said the stock price didn't reflect the company's growth potential. ``We are still in the early days of wireless email adoption and RIM is aggressively expanding business opportunities in key emerging markets," Goldman analyst Brantley Thompson wrote in a note to investors. Thompson raised Research In Motion's share-price estimate by 13 percent to \$295 because **the stock price reflects ``an overly bearish view" that subscriber growth will slow after 2009. [the stock price referred to was \$220 up 85% on the year, \$15 (which it made up today) off an all time high. Yet it was reflecting a "bearish view" – this is what passes for "research"]** **Research In Motion Rises As Goldman Boosts Estimates**

<http://www.bloomberg.com/apps/news?pid=20601204&sid=awBLu42UQLPk&refer=technology>

- August 20 - All morning I have listened to managers being asked about whether we are at a bottom. I have not heard one say "yes." To me, that's remarkable. They don't seem to realize that every piece of negative information about the economy right now, whether it be bad housing numbers, a bankruptcy of a major homebuilder, or a weak employment number, will now be an excuse for the **Fed** to ease. People never want to recognize a game-changer. No one seems to want to stick his neck out and say, "Yes, this is really important, and a bottom could very well be at hand. And you know what? I don't blame them. Not one bit, as someone who sticks his neck out and then admits when he got it wrong, I can tell you it is much better to waffle and hide -- **even as it might be unhelpful [instead Cramer will have his legions through their rent money out the window buying crap like RIMM last trade 227 because it will split 3 for 1 tonight – up 40 bucks in less than 2 trading days, just like QCOM in 1999] .** So what if it is unhelpful. You can never be wrong waffling. To me, it is a worthless exercise. I am willing to bet that most of these people who come on and say they aren't sure are acting with their funds as if they are sure. They are typically emboldened by the "action" and commit money based on the new-found momentum. If the market goes down, these guys will say, "I told you so." If it goes up, they say nothing. What a fabulous risk-reward! **[More from Cramer – this is complete and utter nonsense, but I suspect this "concept" is the sole thing holding the tape up at this point. It is also a glimpse at the lunacy used by those in New York managing you money]**

<http://www.thestreet.com/p/pf/rmoney/jimcramerblog/10375287.html>

- Aug. 17 (Bloomberg) -- Jim Cramer, the CNBC television host who led the howls for the Federal Reserve to cut interest rates, got his wish today. ``They obviously heard us, they acted," he said on the air. ``This is the beginning of the run to 14,500." The Fed lowered

the interest rate on loans to banks by 0.5 percentage point, to 5.75 percent. The surprise action came after weeks of debate between investors looking for looser credit and economists who argued that a rate cut could hasten inflation. "It's a brilliant move by the Fed," Cramer said. "Two weeks ago when I had my talk with you, they were doing the exact opposite." On his show "Mad Money" this afternoon, he applauded himself again, saying "I love to say I told you so," adding later, "I think I nailed it." The idea that Cramer or anyone else outside of the Fed would take credit for the Fed's action struck some economists as chutzpah. "Policy makers can't see themselves as giving in to a crank," said Stephen G. Cecchetti, professor of economics at Brandeis University International Business School in Waltham, Massachusetts. "Maybe Jim Cramer is better informed than they are. I would be shocked." Among economists who saw hypocrisy in wealthy investors and Wall Street traders urging speedy Fed intervention -- a turnabout from their usual stance -- was Richard Yamarone, chief economist for Argus Research in New York. "My mother always told me those who play with fire get burned," he said yesterday. "Here, that apparently doesn't hold true. Someone is making my mother out to be a liar, and that's not a good thing." Growing Chorus Before today's Fed move, Barton Biggs, a former Morgan Stanley strategist who runs the \$1.5 billion hedge fund Traxis Partners LLC in New York; Credit Suisse; and Marco Annunziata, chief economist of Unicredit Markets & Investment in London, had joined the chorus. In an interview yesterday, Biggs said the Fed should lower rates "pretty soon." "People are losing faith in credit, so the economy is seizing up," he said. "That's why it's important that the Fed cut rates and get confidence back in the system." Credit Suisse warned in a report two days ago that markets had reached a point between a "healthy" correction and the prospect of "something far more sinister which could lead to real economic distress." "If policy makers don't act today in a strong and concerted fashion, we are at risk of seeing the biggest market-driven tightening of global financial conditions in a very long time," according to the report. Bernanke "Nuts" Annunziata stopped short of calling for interest-rate cuts in his report but said the situation had reached "a critical crisis" that "needs to be cushioned." On CNBC two weeks ago, Cramer blasted Fed Chairman Ben S. Bernanke and William Poole, president of the St. Louis district bank, calling them "nuts" for leaving interest rates unchanged as global credit was under siege. The segment drew more than 1.6 million hits on YouTube, the video-sharing Web site. Cramer singled out Poole as being "shameless" for favoring a cautious approach and accused Bernanke of having "no idea how bad it is out there." Poole said in an interview Aug. 15 that only "a calamity" affecting the economy would justify an interest-rate cut. Poole didn't address Cramer's remarks, and his spokesman, Joe Elstner, said he would have no comment. Michelle Smith, a spokeswoman for the Fed in Washington, declined to comment on Cramer's remarks directed at Bernanke. Altruistic Motive Cramer said today that he wasn't seeking interest-rate cuts just for Wall Street investors but also to help average homeowners on the verge of default. After taking credit on-air for nudging the Fed, he backpedaled. "It's obvious they didn't listen to me," Cramer said in an interview later. "Things have now happened that make me look good, but it wasn't really my video," he said. "I may be prescient, but I'm not taking a victory lap for something that didn't happen right away." **Cramer Takes Credit for Fed Rate Cut; Then He Doesn't**

<http://www.bloomberg.com/apps/news?pid=20601109&sid=a6vM.YOJHOVA&refer=home>

I Disagree . . . and why

Article of the week:

UM EMBA

Rising Jumbo Rates Deal Another Blow To Housing Market

Subprime Fallout On Luxury

Higher-end home sales have been relatively OK, but Wall St. shuns loans

BY SCOTT STODDARD INVESTOR'S BUSINESS DAILY

Rising interest rates on jumbo home loans are hitting wealthier borrowers and could take down the healthiest part of the sickly housing market, analysts said. The average rate on a 30-year fixed jumbo loan stands at 7.4%, well above the 6.47% at the start of the year, according to [Bankrate.com](#). That adds nearly \$300 to monthly payments on a \$500,000 loan. The spread vs. conventional 30-year fixed loans has risen to 82 basis points, from 23 basis points at the start of July. Rates vary by region, from 7.87% on average in New York to 7.62% in Los Angeles and 7.2% in Philadelphia, according to [Bankrate.com](#). Jumbo mortgages exceed \$417,000 in most states — \$625,000 in Alaska and Hawaii due to higher housing costs there.

They tend to have higher interest rates than “conforming” loans that can be guaranteed by government-backed Freddie Mac and Fannie Mae. But the size of the spread is highly unusual.

Until recently, high-priced markets largely had been untouched by the crisis sparked by soaring defaults on loans to borrowers with poor credit.

But mortgage lenders are having difficulty selling loans to Wall Street banks and other investors, depriving them of the cash and credit they need to fund new loans. That has pushed more lenders into bankruptcy and deprived would-be homeowners of loans.

Many remaining mortgage lenders have stopped offering subprime and other nonconforming loans like jumbos, raised rates on such loans and made it harder even for sound borrowers to get credit.

“It’s not like they don’t want to make loans but they’re concerned about how it will affect their own financials,” said Doug Duncan, chief economist at the Mortgage Bankers Association. Raising rates on jumbo loans is “a move to protect balance sheets and income statements.”

Subprime loan defaults are dumping more houses onto the market and eroding home prices, especially at the low end. Analysts say higher jumbo rates could hit pricier states such as California and Florida especially hard.

“If jumbo rates stay higher for a couple months, that could have an additional adverse affect

on the higher-priced markets,” said William Wheaton, a professor of economics and real estate at the Massachusetts Institute of Technology.

Toll Bros. on Wednesday said third-quarter net profit dropped 85% as stricter lending standards hurt luxury home sales.

“During this downturn, we have experienced a much higher rate of cancellations than at any time in our 21-year history as a public company,” Chairman and CEO Robert Toll said in a statement.

“Mortgage-market liquidity issues and higher borrowing rates may impede some customers from closing, while others may find it more difficult to sell their existing homes,” Toll said.

WCI Communities, another high-end builder, on Wednesday reported a net loss in the second quarter.

Not all the news is bad. IndyMac said Wednesday that it is returning to the prime jumbo market.

But Countrywide, facing its own funding woes, said last Friday that it is going to focus almost entirely on conforming loans.

To ease the credit crunch, Democrats have been pushing for an increase to the conforming loan limit as well as an increase to the total value of loans that Freddie and Fannie can hold in their portfolios. They say such changes would inject much-needed cash into the market for mortgage-backed securities, helping to jump-start lending.

The House passed a bill in May that would raise the ceiling on conforming loans.

Rep. Barney Frank, D-Mass, head of the House Financial Services Committee, has urged the Senate to act as well.

“It’s very important for the Senate to pick up the bill,” said Frank, who has scheduled a hearing on Sept. 5 to examine credit market woes.

Senate Banking Committee Chairman Christopher Dodd, D-Conn., also plans hearings when lawmakers return from their summer recess.

On Tuesday, Dodd met with Federal Reserve chief Ben Bernanke and Treasury Secretary Henry Paulson about steps to keep the lending spigot open.

Dodd said he was “disappointed” that Paulson was reluctant to lift the mortgage portfolio limits on Fannie Mae and Freddie Mac.

The Bush administration earlier this month rejected Fannie’s bid to boost its portfolio above the current \$727 billion limit.

Some say it’s not clear that letting Freddie and Fannie buy bigger or more mortgages would be enough to ease the credit squeeze.

Many investors thought they were safe buying mortgage-backed securities that carried AAA ratings, only to find out that the collateral often contained toxic subprime loans. Now they’re gun-shy.

“The real answer is the restoration of confidence among global investors,” Duncan said.

4 Big Banks Borrow \$2 Bil From The Fed To Boost Liquidity

Stocks Continue To Climb

BofA, Citi, JPMorgan, Wachovia say they're OK, but some see weakness

BY KIRK SHINKLE INVESTOR'S BUSINESS DAILY

Four of the biggest U.S. banks came calling at the Federal Reserve Wednesday, taking central bankers up on their offer of extra liquidity to the tune of \$2 billion in new loans.

Citigroup, JPMorgan, Bank of America and Wachovia took out \$500 million each in the form of 30-day loans offered last Friday from the Fed's discount window.

Last Friday, the Fed cut the discount rate at which it lends money to banks by a big 50 basis points to 5.75% to try to help head off a credit crunch that has paralyzed debt markets in recent weeks. The Fed also has been injecting cash and cutting some lending fees to help get money moving.

Noble Gesture?

Citigroup, the first to announce, said it was borrowing "on behalf of its clients," and "is pleased to inject liquidity into the financial system during times of market stress and to support creditworthy clients."

The other three banks soon followed with a joint statement: "The companies believe it is important at this time to take a leadership role in demonstrating the potential value of the Fed's primary credit facility and to encourage its use by other financial institutions."

Deutsche Bank said late that it tapped the discount window on Friday for similar reasons.

With liquidity largely drained from big chunks of the financial system, analysts said the move is designed to assure market participants that banks are willing to act to head off a credit crunch.

"They moved together and are trying to set the example to other banks that the discount window is accessible," said Alan Gayle, senior investment strategist at Trusco Capital Management. He predicts smaller banks will follow suit.

Stocks rose — as they have every day since the Fed cut the discount rate. The Nasdaq and S&P 500 climbed 1.2% and the Dow 1.1%.

Demand for short-term Treasuries cooled for a second day after a huge flight from commercial paper markets. The three-month T-bill rate fell 2 basis points to 3.68%.

'Stigma Attached'

Traditionally banks are loath to turn to the Fed, as their reputations suffer in the eyes of investors and regulators who view it as a sign that they are struggling to borrow through usual channels.

"There's a stigma attached to going to the discount window. You didn't borrow unless you couldn't get that money anywhere else. You didn't want to be on the regulators radar," Gayle said. "I suspect there may have been some encouragement (by the Fed) to have several very large players step up . . . because nobody wanted to be first."

For the banks, it's a trade-off: Suffer some loss of reputation in exchange for leading the charge (and hoping other banks follow) to shore up the financial system.

The Fed clearly hopes a welcoming discount window will restore liquidity and confidence. But not everyone agrees.

"I think it's a huge mistake," said Richard Bove, a banking analyst at Punk Ziegel. "I know the

Fed is encouraging banks to borrow . . . to provide a backstop to the commercial paper markets. But it's absolutely the wrong thing to do because it's showing weakness in the banking system.

“It suggests the stress in the financial system is as great as feared.”

Citigroup, BofA and Wachovia shares edged up while JPMorgan slid.
Global Stock Gains Show Fed 'Stepped Up' to Avert Credit Crisis